

2021

LAW DEPARTMENT BENCHMARKING REPORT

JULY 14, 2021



Today's Presenters



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Major, Lindsey & Africa



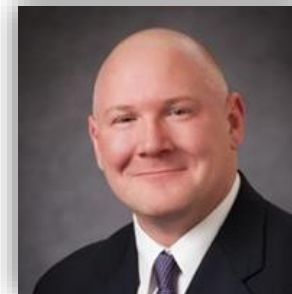
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Available in the GotoWebinar Console



The Executive Summary contains high-level summaries of:

- Legal Department Structure
- Staffing
- Spending
- Work Allocation
- Use of Law Firms
- Diversity

Plus Demographics and Methodology

Overview & Agenda



- The Context and Purpose of Benchmarking
- How to Use Benchmarking
- Headline Findings from The 2021 LDMB Report
- Q&A

The Context and Purpose of Benchmarking

If you can't measure it, you can't manage it.

Peter Drucker, Father of Post-War Management Thinking, incl. "Managing In Turbulent Times"

Legal leaders ask:

- “How can we show our value to the business & speak the business language?”
- “What key performance indicators apply to Legal?”
- “How can we deliver more for less?”
- “Efficiency improvements: where do I start?”

Benchmarking provides the answers: the objective measurement of legal department performance.

The Context and Purpose of Benchmarking *Cont.*

Businesses use overall performance metrics such as:

- Earnings per share
- Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)
- Return on Invested Capital (ROIC)
- Opex as a % of Revenue

The best legal functions utilize our own performance metrics to speak the business language and avoid being judged or managed purely on subjective factors and opinions (however favorable).

The Context and Purpose of Benchmarking Cont.

- ACC/MLA's Legal Department Management Benchmarking is the biggest, independent 3rd party database that competitively compares your legal function to peer companies by industry and size according [X number] metrics.
- Benchmarking differs from opinion surveys (e.g. "What keeps you up at night?") because it provides a real-time data dashboard to understand and drive your specific function rather than just discuss general issues of interest.

How to Use Benchmarking

- Gather your own internal data needed to calculate a given benchmarking
 - i.e. $\text{Number of lawyers} \div \text{Number of \$Billions of company revenue} = \text{Lawyers per \$Billion benchmark.}$
- Compare yours to the industry and size in the database.
- Connect your comparative positioning with the consequences of that position.
 - i.e. If you are positioned in the lowest quartiles for resource inputs, does that lead to negative consequences elsewhere in terms of work outputs?
- Make or justify improvement decisions, if any.

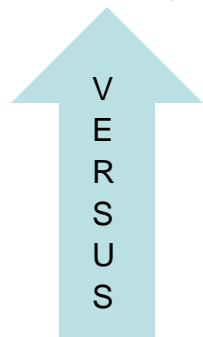
Benchmarks Show the Department's Efficiency and Value

Assuming we compete effectively with our peers, if our legal metrics compare more favorably, our law department delivers more value.

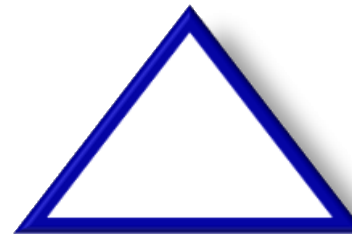
Benchmark Example

	Company X	Industry Sector Y		
		33 companies		
		Mean	Median	Highest 25%
External Spend as a % of Company Revenue	1.61%	0.4	0.31	0.57
Internal Lawyers per \$Bn of Company Revenue	7.26	21.41	10.52	18.27

Work Outputs:



Legal Coverage
Compliance
Client Satisfaction



Resource Inputs: Headcount Net Cost

Headline Findings from the 2021 LDMB Report

- Just 29 percent of companies track internal diversity – and of those that do, 47 percent have a formal strategy to improve in this area.
- Despite the growing popularity of ALSPs, just 12% of companies increased their usage of these providers in 2020.
- There is a degree of trending that shows that legal departments with greater legal operations staffing tend to spend less in legal fees as a percentage of company revenue and use a lower number of law firms overall. Early signs of the positive impact of dedicated legal function management.
- In 80 percent of departments, the CLO reports directly to the organization's chief executive officer. In 92 percent of companies with over \$10 billion in revenue, CLOs reported directly to the CEO.
- When mid-sized and large companies use fewer law firms, they reduce their external legal spend as a percentage of company revenue.





Overall **29%** of survey participants reported **tracking internal diversity metrics**, though with considerable variation across company sizes.

SMALL
ORGANIZATIONS

16%

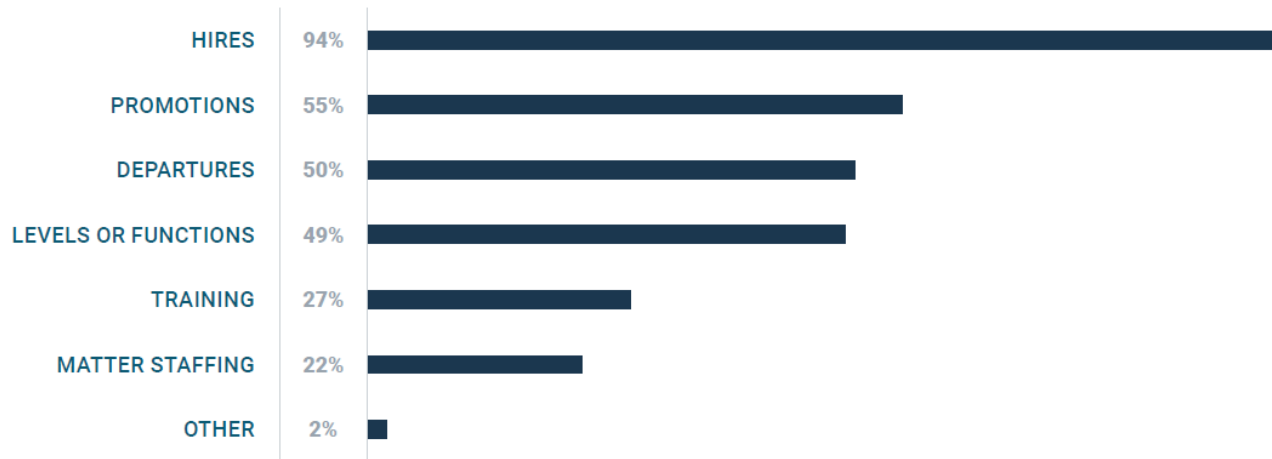
MID-SIZED
ORGANIZATIONS

39%

LARGE
ORGANIZATIONS

71%

DIVERSITY EVALUATED BASED ON THE FOLLOWING FACTORS



FORMAL STRATEGY TO
IMPROVE DEPARTMENTAL
DIVERSITY WITH TANGIBLE
CONSEQUENCES

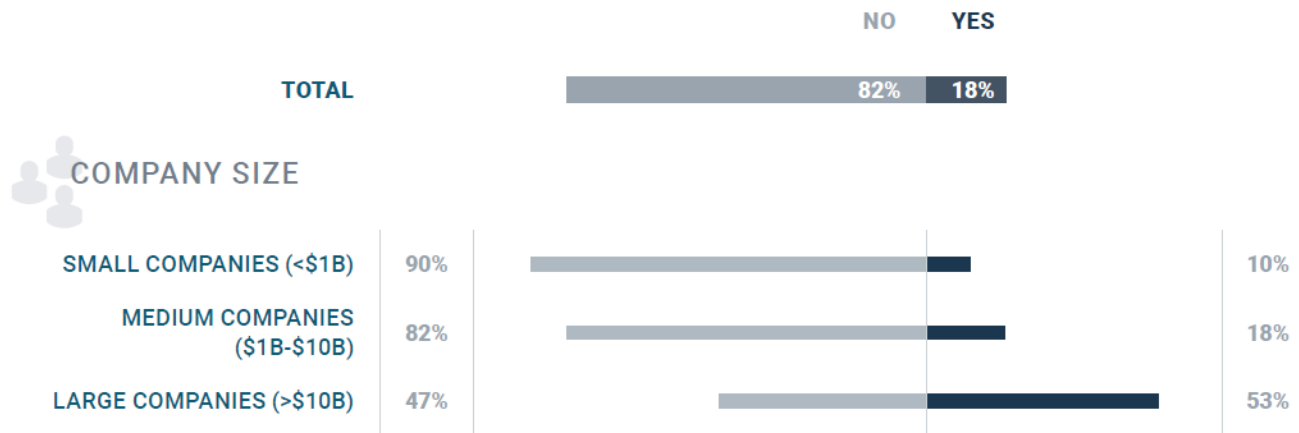


YES
46.9%

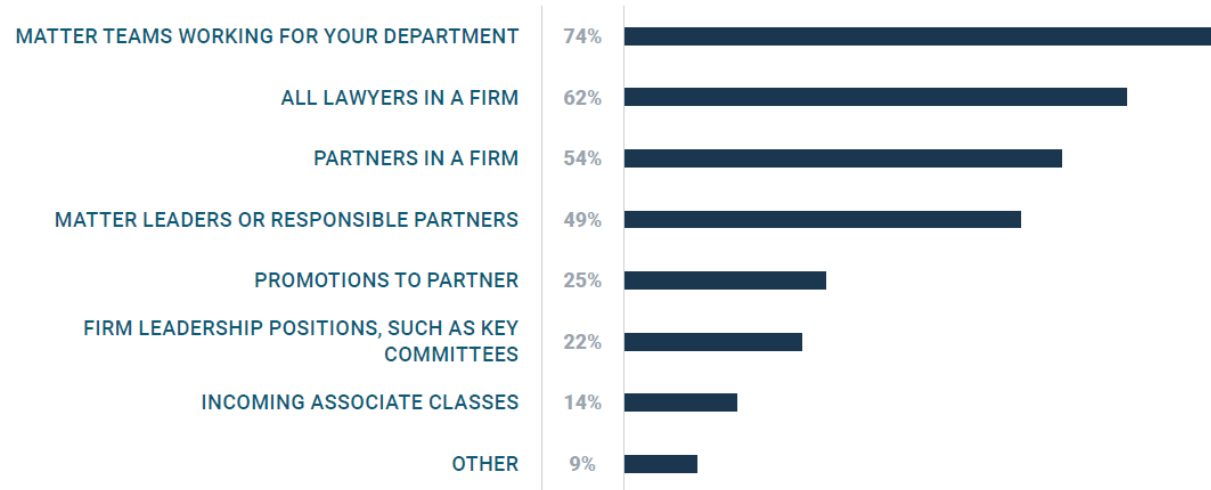


NO
53.1%

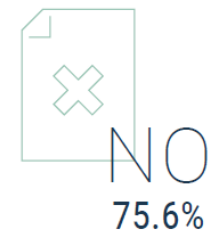
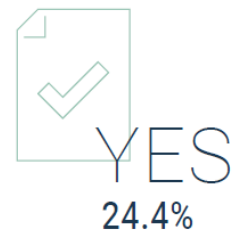
THE LEGAL DEPARTMENT HAS DIVERSITY METRICS WITH RESPECT TO ITS OUTSIDE COUNSEL



DIVERSITY EVALUATED BASED ON THE FOLLOWING FACTORS



FORMAL REQUIREMENTS
TO IMPROVE DIVERSITY FOR
OUTSIDE COUNSEL WITH
TANGIBLE CONSEQUENCES

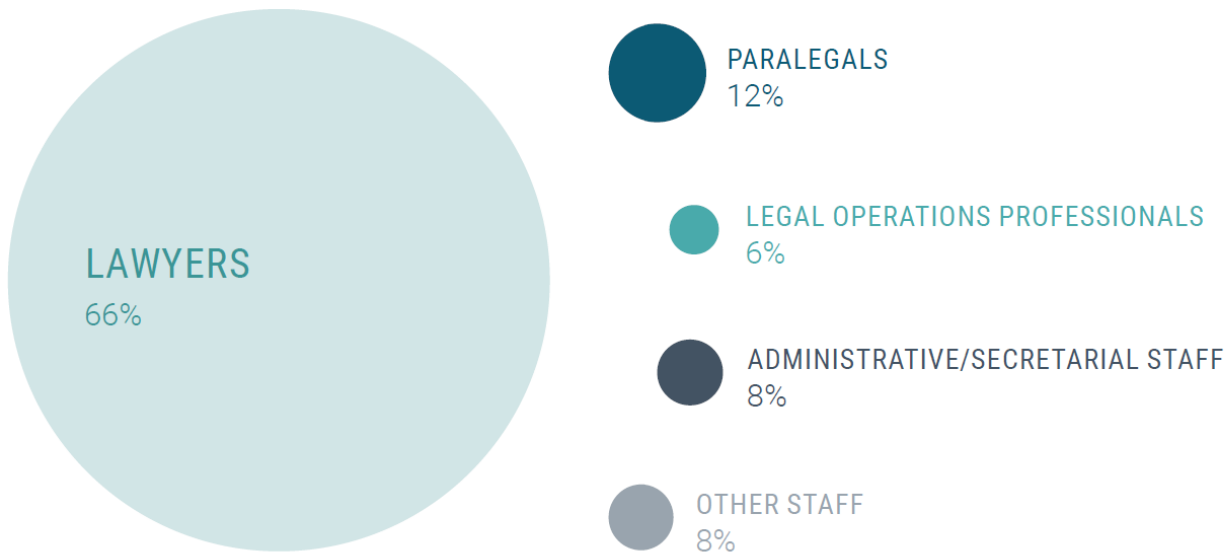




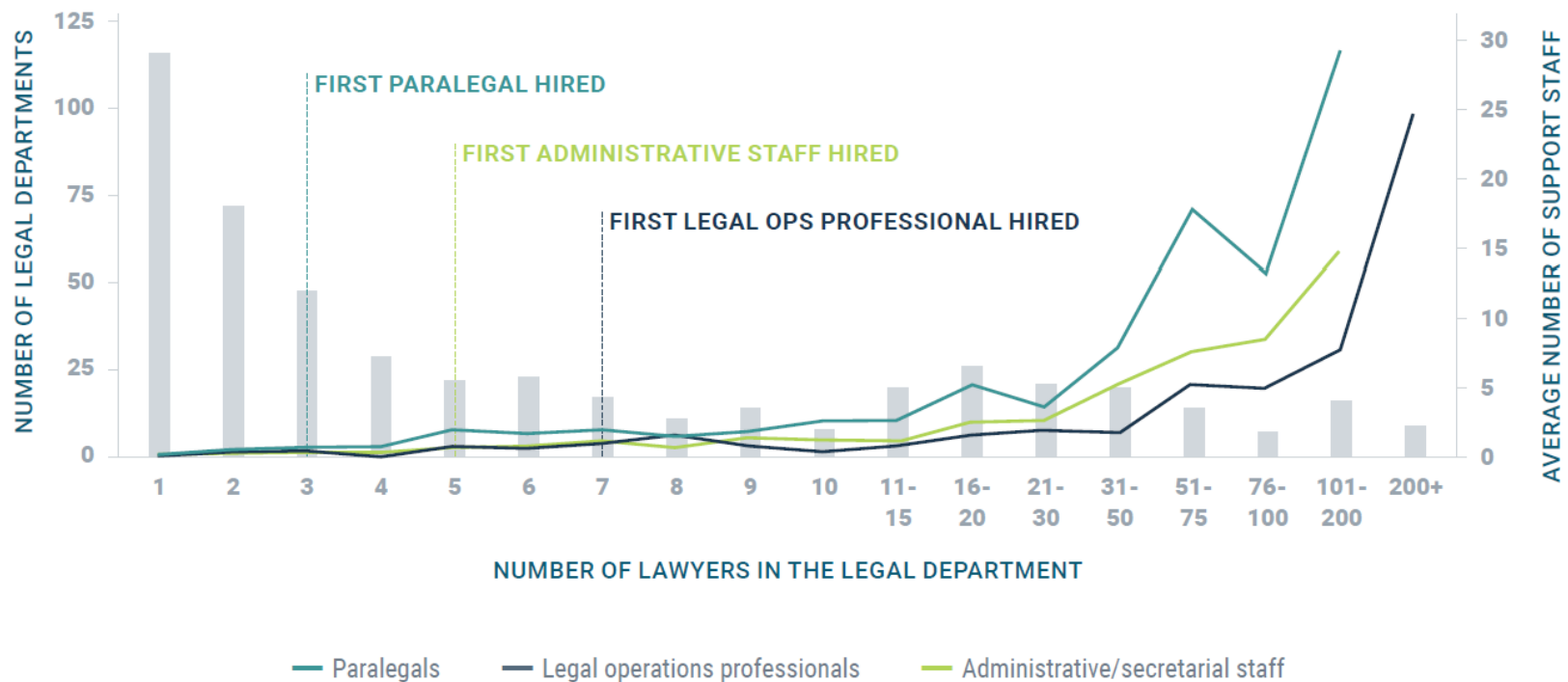
LAWYER-TO-OTHER STAFF RATIOS



LEGAL DEPARTMENT COMPOSITION (MEAN)



AVERAGE SUPPORT STAFF PER NUMBER OF LAWYERS IN THE LEGAL DEPARTMENT





LARGER COMPANIES ENJOY ECONOMIES OF SCALE DESPITE SIGNIFICANT SPEND RELATIVE TO SMALLER PEERS

	TOTAL	SMALL COMPANIES (<\$1B)	MEDIUM COMPANIES (\$1B–\$10B)	LARGE COMPANIES (>\$10B)
TOTAL INSIDE SPEND <i>Includes lawyer and non-lawyer compensation and other inside spend not categorized</i>	\$1.0M	\$560K	\$3.2M	\$27M
TOTAL OUTSIDE SPEND <i>Includes spend on outside counsel and ALSPs and other remaining outside spend not categorized</i>	\$1.5M	\$500K	\$5.0M	\$31.0M
TOTAL LEGAL SPEND <i>Total inside spend + total outside spend</i>	\$3.0M	\$1.2M	\$8.4M	\$64.0M
LAWYER COMPENSATION <i>Combined compensation among all department lawyers— includes salary, cash bonus, taxes, and benefits</i>	\$670K	\$400K	\$2.0M	\$12.5M
NON-LAWYER COMPENSATION <i>Combined compensation among all non-lawyer legal staff— includes salary, cash bonus, taxes, and benefits</i>	\$213K	\$130K	\$500K	\$4.0M
SPEND ON OUTSIDE COUNSEL	\$1.3M	\$400K	\$4.0M	\$24.0M
SPEND ON ALSPS/LPOS	\$10K	\$0	\$100K	\$1.0M
TOTAL INSIDE SPEND AS PERCENTAGE OF TOTAL SPEND	48.9%	53.1%	42.5%	45.3%
TOTAL OUTSIDE SPEND AS PERCENTAGE OF TOTAL SPEND	51.2%	46.9%	57.6%	54.7%
TOTAL SPEND AS PERCENTAGE OF REVENUE	0.573%	0.867%	0.363%	0.227%
COST PER LAWYER HOUR <i>Total lawyer compensation spend divided by (lawyers x 1,800 billable hours)</i>	\$120.37	\$112.50	\$130.56	\$123.40
PERCENTAGE OF LEGAL SPEND ALLOCATED TO OTHER BUSINESS UNITS	4.0%	0.0%	12.5%	44.0%
PERCENTAGE OF TOTAL LEGAL SPEND ALLOCATED TO LEGAL TECHNOLOGY	2.0%	2.0%	2.0%	2.0%

Note: Outside spend values do not include settlement costs, judgements, fines, recoveries, or costs associated with claims or capitalized expenses.

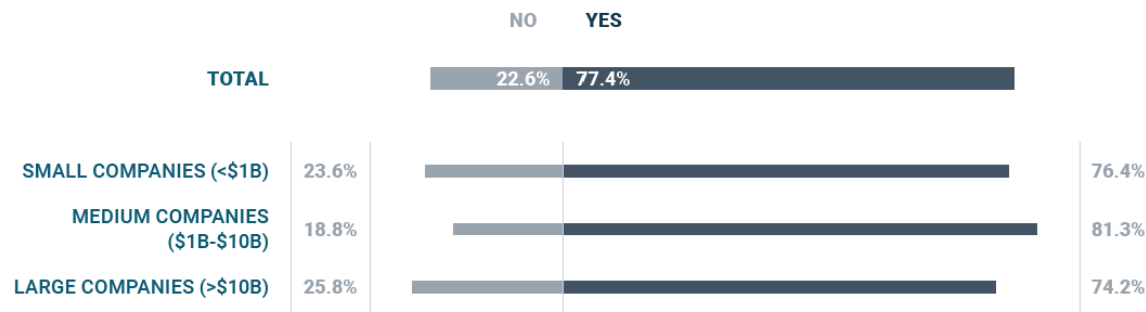
Technology Areas by Allocated Spend

- Contract Management
- Compliance
- Legal Research Services
- IP Management
- Matter Management
- E-Billing
- Board Portals
- Document Management
- E-Signature
- E-Discovery: Identification/
Preservation/Collection
- Corporate Secretary Tools
- E-Discovery: Review/Production
- E-Discovery: Processing/Analysis
- Business Intelligence (BI)
- Workflow Tools
- Record Management
- Knowledge Management
- Document Comparison
- Artificial Intelligence (AI)
- Online Virtual Data
- Room Repositories
- Patent Search Tools
- Legal Hold Tools
- Project Management
- Remote Connectivity Tools
- Survey/Information
- Gathering Tools
- Integration Tools



USE OF LAW FIRMS

LIST OF PREFERRED PROVIDERS OF OUTSIDE COUNSEL



77% of respondents do keep
a list of preferred providers

HOW MANY WERE ENGAGED BY YOUR ORGANIZATION IN 2020?



LAW FIRMS

MEAN

TOTAL

36.2



COMPANY SIZE

SMALL (<\$1B)

10.1



MEDIUM (\$1B-\$10B)

35.8



LARGE (>\$10B)

158.3



INDUSTRY

ENERGY, OIL, AND GAS

69.5



FINANCE AND BANKING

56.0



ARTS, ENTERTAINMENT, AND RECREATION

48.4



INSURANCE

44.9



MANUFACTURING

44.2





ALTERNATIVE LEGAL SERVICE PROVIDERS

	MEAN
TOTAL	1.6



COMPANY SIZE

SMALL (<\$1B)	0.5
MEDIUM (\$1B-\$10B)	2.0
LARGE (>\$10B)	5.4

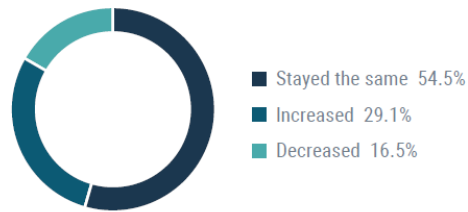


INDUSTRY

FINANCE AND BANKING	4.0
INSURANCE	3.2
TRANSPORTATION AND WAREHOUSING	3.0
ARTS, ENTERTAINMENT, AND RECREATION	2.2
RETAIL TRADE	1.9

HOW DID THIS NUMBER CHANGE COMPARED TO 2019?

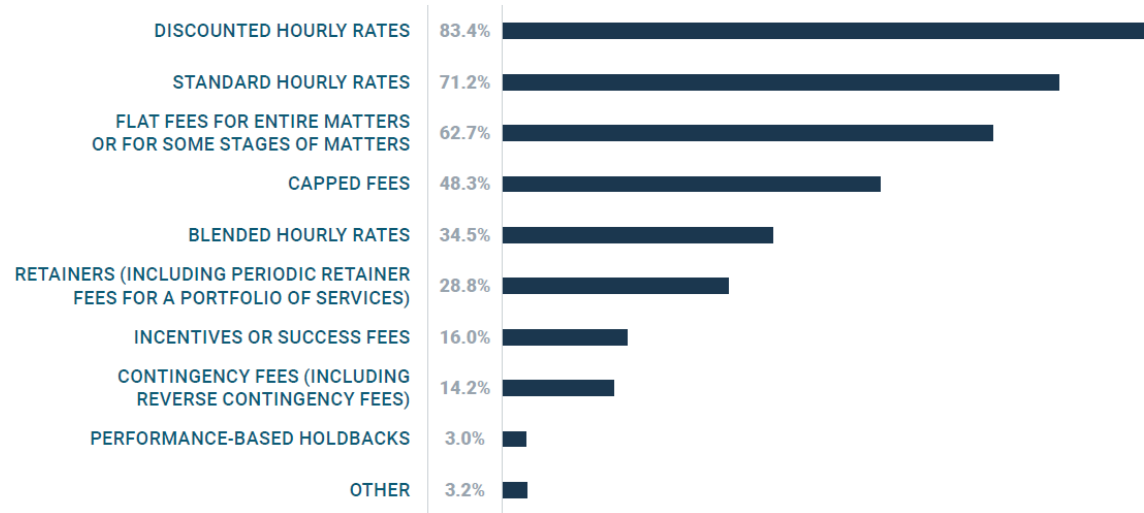
LAW FIRMS



ALTERNATIVE LEGAL SERVICE PROVIDERS



TYPES OF OUTSIDE COUNSEL FEES USED



Questions



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Thank You



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